

While the vehicle which was selected to accomplish these tasks by early developers was the planned community, these same three goals also could have been achieved by using a condominium or cooperative form of development.

Each of the three types of community associations—condominium, cooperative and planned community—have had a different development history. On occasion, in the past, they have intersected with one another, but it was not until the Uniform Law Commissioners promulgated the various uniform real property acts in the 1970s and early 1980s that the actual similarities of the three types of CAs were more critically appreciated and refined.

Five Historical Periods Mark CA Development

Phase I: Origins— 1830-1910

- The first rudimentary CAs were formed, but many lacked a formal association through which deed restrictions could be enforced or assessments collected.
- Gramercy Park in New York, 1831
- Louisburg Square in Boston, 1841
- Toward the end of this period, the first housing cooperatives were introduced in New York City among the more affluent classes.

Phase II: Emergence— 1910-1935

- Expensive suburban developments began to place greater emphasis on deed restrictions.
- Average duration of deed restrictions was now 33 years compared to 10 years in Phase I.
- Associations were rigorously planned and conceptualized, but were not mandatory.
- "Art Juries" made up of third parties were used for architectural controls.
- Housing cooperatives increased in the New York City area particularly for low-moderate income unit owners.

Phase III: Popularity— 1935-1961

- Federal Housing Administration (FHA) was created in 1935, making greater amounts of financing available through FHA mortgage insurance.

Community associations, both in the United States and Europe, were first developed in measurable numbers in the late nineteenth century. In the United States, the first type of CA to be developed was the planned community.

The nation's first condominium, The Greystoke, a common law condominium, was built in Salt Lake City, Utah, in 1962.

Phase IV: Expansion— 1961-1973

- Through its land planning, property and subdivision standards and use of conditional commitments, FHA policies encouraged large scale housing subdivisions.
- A limited number of common law condominiums was created.
- In 1961, FHA provided mortgage insurance for condominiums.
- Soon after, Chicago Title and Trust began offering title insurance for condominiums.
- In the early 1960s, development began for two significant large scale master planned communities: Reston, Virginia, and Columbia, Maryland.
- By 1967, every state had adopted a condominium property act with most based on the FHA Model Statute.
- Conversions to condominium and cooperative came under intense public scrutiny by the late 1960s and early 1970s.
- In 1972, a blue ribbon commission met in Virginia to develop a condominium statute that balanced developer needs with consumer protections.
- Pent-up housing demand and an expanding economy saw cooperatives and planned communities pushed to the sidelines in favor of condominiums.
- In 1963, FHA published *Planned Unit Development With A Homes Association*, and provided mortgage insurance on units in such developments.
- In 1964, the Urban Land Institute published, with one of CAI's eventual founders, Byron Hanke, as principal author, *Technical Bulletin No. 50—The Homes Association Handbook*—the first systematic study of planned communities, which called for the creation of a national organization to provide education and act as a clearinghouse of ideas and practices in the CA field.

In 1973, CAI was organized through the joint efforts of NAHB, ULI, U.S. League of Savings and Loan Associations, the VA, HUD, 23 builder/developers and some dedicated community association professionals.

**Phase V:
Restructuring—
1973 to present**

- Consumer problems in Florida and elsewhere led to hearings, investigations and a bewildering array of local legislation designed to protect the consumer.
- FNMA (Federal National Mortgage Association) and FHLMC (Federal Home Loan Mortgage Corporation) opened the secondary mortgage market to the purchase of condominium and planned community unit loans; in the mid-1980s, cooperative loans became acceptable.
- In 1975 and 1980, HUD/FHA conducts two landmark studies on the problems and prospects of condominiums and cooperatives.
- In 1977, the National Conference of Commissioners on Uniform State Laws, borrowing from the Virginia Condominium Study and with the assistance of CAI, promulgates the first of four model community association statutes, which are eventually adopted in nearly one-third of the states.
- By 1992, America's 150,000 CAs demonstrated their ability to satisfy a full range of housing needs—from starter homes to retirement communities, from primary residences to vacation homes and from low-moderate income housing to the most expensive available.

HOW MANY CAS IN THE U.S.?

During the last 20 years, community associations have withstood the severe economic effects of inflation and the collapse of traditional housing finance—Savings and Loans. Their growth has been persistent.

Through 1992 it can be estimated that in the United States there are:

Community Associations:

150,000

Housing nearly:

32 million people

Number of Community Associations Housing Units			
	1970	1980	1990
Condominiums	85,000	1,252,000	4,847,921
Cooperatives	351,000	439,000	824,000
Public Housing	265,000	540,000	5,967,000
Total all three	701,000	2,231,000	11,638,921
Total population	10,000	220,000	130,000
Percentage of population	63,445,192	10,000,000	102,263,678
Percentage of the nation	1.11%	1.11%	11.38%

Source: HUD reports, 1975, 1980; CAI estimates

Percentage of Total U.S. Population			
	1970	1980	1990
Condominiums	12%	57%	42%
Cooperatives	50%	19%	7%
Public Housing	38%	24%	51%

Source: 1990 Census; CAI estimates

WHERE ARE CAs LOCATED?

Florida, California Lead in CAs

Florida and California remain the leaders in community association growth and development, accounting for over 40 percent of all associations. Virtually every state, however, has seen steady growth.

Local planning officials have discovered that the most effective land planning—both short-term and long-term—is accomplished through the community association format. It is not unusual to find over half of all residential building permits being issued to CA housing developments especially in active market areas. In certain states, such as Texas, where zoning is very nominal, community associations, through their covenants, serve municipal zoning functions.

1990 U.S. CENSUS FIGURES ON CONDOMINIUMS¹

STATE	Total Population	Total Housing Units	Condominium Units	Percent ²
Alaska	550,443	232,608	12,205	5%
Arizona	3,350,228	1,659,430	103,804	6%
Arkansas	2,350,225	1,000,067	8,784	1%
California	29,760,021	11,182,882	856,165	8%
Colorado	3,294,994	1,477,349	124,032	8%
Connecticut	3,287,116	1,320,850	119,935	9%
Delaware	666,668	289,919	10,366	4%
District of Columbia	606,900	278,489	28,628	10%
Florida	12,937,226	6,100,262	944,590	15%
Georgia	6,478,216	2,638,418	72,938	3%
Hawaii	1,108,229	389,810	81,127	21%
Idaho	1,006,749	413,327	7,488	2%
Illinois	11,430,002	4,505,275	242,653	5%
Indiana	5,544,159	2,246,046	31,255	1%

STATE	Total Population	Total Housing Units	Condominium Units	Percent ²
Iowa	2,776,765	1,143,689	13,350	1%
Kansas	2,477,765	1,044,112	18,235	2%
Kentucky	3,685,296	1,506,845	20,614	1%
Louisiana	4,219,973	1,716,241	27,415	2%
Maine	1,227,928	587,045	10,733	2%
Maryland	4,781,468	1,891,917	116,243	6%
Massachusetts	6,016,425	2,472,711	157,716	6%
Michigan	9,295,297	3,847,926	103,922	3%
Minnesota	4,175,099	1,848,445	35,903	3%
Mississippi	2,573,216	1,010,423	6,561	1%
Missouri	5,177,073	2,199,129	47,483	2%
Montana	799,065	361,155	6,123	2%
Nebraska	1,783,385	660,621	7,759	1%
Nevada	1,201,833	518,858	38,306	7%
New Hampshire	1,092,252	503,904	34,777	7%
New Jersey	7,730,188	3,075,310	222,105	7%
New Mexico	1,514,069	632,058	10,012	2%
New York	17,990,455	7,220,891	343,825	5%
North Carolina	6,628,637	2,818,193	79,436	3%
North Dakota	638,800	276,340	6,002	2%
Ohio	10,547,115	4,371,945	113,570	3%
Oklahoma	3,145,585	1,406,499	21,646	2%
Oregon	2,842,321	1,193,567	21,040	2%

STATE	Total Population	Total Housing Units	Condominium Units	Percent ²
Pennsylvania	11,881,643	4,938,140	103,152	2%
Rhode Island	1,003,464	414,572	12,682	3%
South Carolina	3,486,703	1,424,155	57,728	4%
South Dakota	696,004	292,436	2,114	1%
Tennessee	4,877,135	2,026,067	44,322	2%
Texas	16,986,510	7,008,999	203,069	3%
Utah	1,722,850	598,388	33,226	6%
Vermont	562,758	271,214	14,457	5%
Virginia	6,187,353	2,496,334	122,757	5%
Washington	4,866,692	2,032,378	62,639	3%
West Virginia	1,793,477	781,295	4,551	1%
Wisconsin	4,891,769	2,055,774	34,714	2%
Wyoming	453,583	203,411	2,527	1%
USA TOTAL	248,709,873	102,263,678	4,847,921	5%

¹ United States Government, Department of the Census, Summary Tape Files 3-A (STF 3-A), (CPH-L-80) state summaries, released April, 1992. Hawaii data provided by the Hawaii Real Estate Commission.

² Percent of condominiums as part of the total housing pool.

WHY ARE COMMUNITY ASSOCIATION DEVELOPMENTS POPULAR?

Architectural Diversity

Community associations can be found in a variety of architectural types: single family detached houses, townhouses, duplexes, quadraplex, two and three story garden-style, mid-rise, and high-rise buildings. Condominiums and cooperatives are found with any architectural type, but, generally, they are the only form that can be used where units are stacked, as in low-rise, mid-rise or high-rise developments. There are also many non-residential condominium association properties such as office buildings, medical suites and parking garages.

**Community Association Architectural Styles
as Percent of all CAs**

	1988	1990
Townhouse	39%	42%
Mid & Hi-rise	20%	23%
Garden style	17%	13%
Single family, detached	15%	18%
Other	9%	4%

Source: CAI and the Advisory Commission on Intergovernmental Relations (ACIR), 1988; CAI Assessment Survey, 1990

Who is Attracted to Community Association Living?

■ **Empty nesters** - households without children or whose children have grown up or moved out. Empty nesters are attracted by the low-maintenance, amenity-filled and security emphasized aspects of community association living.

■ **Working couples** - while double-income couples can afford traditional homes, they enjoy the time-saving aspects and the reduced maintenance demands of community association living.

■ **Singles** - community associations offer affordable homeownership without financially cramping the "singles" lifestyle.

■ **Retirees** - low-maintenance, security, simplified lifestyle and increased amenities are all aspects of community association living that appeal to senior Americans.

■ **First-time buyers** - Many first-time buyers find it easier to enter the real estate market with the relatively lower cost of co-op, condominium and planned community units.

■ **Investors** - with the supply of rental housing dropping, community associations often act to fill voids in local rental markets in much the same manner as do single family homes. (From 2 to 4 out of ten single family homes are rental.)

People are attracted to community associations for a variety of reasons, depending on their age, income and family status.

Median Resale Price Comparisons

	Condominium	Single Family	Difference
1987			
First Quarter	\$71,600	\$ 84,200	17.6%
Second Quarter	77,700	85,100	9.5%
1988			
First Quarter	81,200	87,800	8.1%
Second Quarter	83,800	88,900	6.1%
1991			
First Quarter	86,990	100,546	15.6%
Fourth Quarter	87,230	101,344	16.2%

Source: National Association of Realtors, 1992

The disparity between the cost of a single family home and a condominium can be even greater depending on the region of the country. For instance in the Washington, D.C. area,

In 1991: The median price of a condominium was \$105,400

In 1991: The median price of a single family detached home was \$195,150

A difference of \$89,750

Source: The Washington Post, March 28, 1992

Today, financing the purchase of a condominium and planned community unit is generally no different than financing a single-family home.

3 Main Reasons Buyers Choose CA Developments

- 1. Protect and enhance housing values**
- 2. Services and amenities**
- 3. Affordability**

Amenities Make CAs Popular Choice

The average American homeowner can not afford to build a tennis court or swimming pool in his or her back yard. Through shared ownership in a community association, however, many amenities can be enjoyed. And, Americans are spending more of their spare time engaging in recreational leisure.

According to the University of Maryland's 1990 "Use of Time Project," the hours per week an American adult spends on "sports/outdoors" activities has increased 2 1/2 times since 1965. This area represented the biggest increase of all "spare time" activities by Americans, a greater increase than "watching TV," "talking," "traveling," "education" or "religion." This trend was recognized by community association builders and developers.

In general, the larger the community, the greater the number and types of amenities. When more residents split the maintenance costs, more amenities can be afforded and enjoyed.




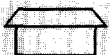



VA and FANNIE MAE Support CA Popularity

Besides the role of FHA and Chicago Title and Trust mentioned earlier, there were two other major factors contributing to growth in the use of community associations by developers. The first was the Veteran's Administration decision to make condominium loan eligible for VA guarantee programs in 1974. The second was the Federal National

Mortgage Association's (Fannie Mae or FNMA) decision to buy mortgages in condominiums and planned unit developments in 1975. Until that time, most lending institutions treated condominium unit loans as portfolio loans and were reluctant to engage in too much of this type of housing finance. Financing a cooperative loan is still difficult in most markets except New York.

Percentage of CAI member associations (by unit size) that offer seven of the most common amenities:

Number of Units/Homes

Amenity	50	51-150	151-350	351-500	501+
 Pools	43%	64%	76%	74%	75%
 Playgrounds	15%	27%	37%	42%	47%
 Park Area	20%	26%	29%	51%	52%
 Clubhouse	12%	37%	56%	61%	60%
 Tennis	13%	31%	45%	52%	58%
 Lake/Pond	13%	22%	30%	42%	42%
 Golf Course	1%	2%	4%	4%	19%

Primary Responsibilities of the Board

- Ensuring satisfactory operation and maintenance of the community association's facilities and services
- Managing the finances and budgets
- Making long-range plans, such as a savings or "reserve" programs to pay for major repairs in the future
- Enforcing rules and regulations provided by the governing documents or adopted by the Board

Characteristics of board members and board service

Average Age

48 years

Average time served on the board

2.9 years

Average time devoted to association per month

9 hours

Intend to serve on board again?

68% Yes

HOW DO COMMUNITY ASSOCIATIONS OPERATE?

Serving the Community

Some people call community associations the most representative and responsive form of democracy found in America today. Residents of a community freely elect neighbors to serve on the Board of Directors of that community. And, numerous other owners or residents, serve on committees or help with special tasks as they arise.

Board members and committee members are volunteer leaders who meet regularly to discuss pertinent details about running their community. A board meeting at a community association is comparable to a town council meeting of a municipality.

Other professionals may assist, such as managers, attorneys and accountants, but it is these volunteers from the community association who are clearly in charge of the operation and governance of their associations. These people are almost always unpaid volunteers, who devote their personal time to managing the affairs of their community.

CAI recently conducted a survey of more than 250 board members to find out more about these volunteers and about what motivates them to volunteer their time.

Why do Board Members Serve?

78%	Protect property values	41%	To control conditions for own unit
64%	Civic duty	34%	Ideas for reforms
42%	Believe they are good organizers	19%	Disliked past board decisions

How do board members describe their own personalities and style of interaction with others?

65%	Organizer/facilitator	15%	Behind the scenes worker
25%	Consensus-builder	14%	Researcher/legalistic
18%	Supporter	10%	Mainstay
18%	Strong Leader	7%	Strong motivator

Source: CAI Board Member Survey, December, 1991

Budgets

One of the most important responsibilities of the Board of Directors is the development of an annual financial plan for the community. The annual budget reflects the costs necessary to carry out the services and obligations of the association.

A typical association budget is broken down this way:

Typical Distribution of Expenses			
Budget Category	Condominium	Cooperative	Planned Community
Administrative	20.9%	21.6%	52.1%
Operations	30.2%	29.9%	—
Repair and Maintenance	39.2%	26.7%	7.9%
Fixed Costs	9.7%	21.8%	—
Source: The Institute of Real Estate Management, 1991			

Generally, the magnitude of a community association's annual budget is directly proportional to its size and amenity/service package. CAI members, who come from larger associations, have the following budgets:

1991 CAI Member Association Budgets

14%	Less than \$ 50,000
17%	\$ 50,001 - \$ 100,000
19%	\$ 100,001 - \$ 200,000
19%	\$ 200,001 - \$ 400,000
17%	\$ 400,001 - \$ 750,000
9%	\$ 750,001 - \$1,500,000
5%	\$1,500,000 +

Average CAI Member Budget: \$ 218,000

Average Budget for All CAs: \$ 122,008

Assessments

An association's operations are financed by owners on an equitable basis of sharing costs—costs met through membership assessments.

In 1987, insurance was a main reason for assessment increases while reserve funding became the biggest reason in 1988.

Meanwhile, insurance costs for community associations continued to drop after 1988, while the costs of major repairs was on the rise. Some contend that as community associations continue to age, replacement due to wear and tear will dominate spending in the future. In 1992, utility bills became a major reason for assessment increases for community associations.

1992 Budget Categories That Led to Assessment Increases (rank ordered by size of increase)

High Rise	Garden Style	Single Family Home
Reserves	Reserves	Reserves
Utilities	Utilities	Utilities
Legal	Maintenance/repainting	Maintenance/repainting
Major repairs/defects	Additional improvements	Additional improvements
Additional Improvements	Major repairs/defects	Legal
Maintenance/Repainting	Legal	Security
Insurance	Insurance	Major repairs/defects
Security		

Source: CAI Manager's Survey, 1992

1989 Condominium Assessments and Cooperative Fees

Amount of Fee	Number of Units
Less than \$ 25 per month	37,000
\$ 25 - 49	64,000
\$ 50 - 74	248,000
\$ 75 - 99	394,000
\$ 100 - 149	691,000
\$ 150 - 199	278,000
\$ 200 or more per month	397,000
Not reported	128,000
Median fee: \$ 123/month	

Source: American Housing Survey for the United States in 1989

Reserves

Community associations are responsible for the eventual replacement or refurbishing of the common areas or common elements. To meet this responsibility, the association must set aside funds for future major repairs and renovations. Establishing and maintaining association reserves is

one of the most important functions of the Board of Directors.

Of course, not all associations have the same priorities for reserve planning. Depending on their architectural style, CAI member associations prioritized their reserves in the following order:

Community Association Reserve Priorities		
High-rise	Garden Style	Single Family Home
Roofing	Paving	Paving
Paving	Roofing	Landscaping
HVAC	Siding	Roofing
Landscaping	Landscaping	Siding
Paint/Carpet	Painting	Painting
		Pool/Rec area

Source: CAI Manager's Survey, 1992

Resolving Disputes Through Alternative Dispute Resolution (ADR)

"Clogged courtrooms and skyrocketing legal costs will lead to increased use of ADR as a replacement for litigation," said futurist John Naisbitt, author of Megatrends, in October, 1991. This trend, however, has been occurring for some time.

ADR refers to the formal and informal procedures that serve as alternatives to litigation. Today, there are two main procedures: mediation and arbitration.

ADR techniques have a proven success rate. In her book, Resolving Association Disputes, author Vivian Walker, Ph.D. notes that the odds are 8-to-1 with mediation that the two parties will reach a mutually satisfactory agreement. In Hawaii, the nonprofit Neighborhood Justice Center has reached an 85 percent success rate in resolving common interest disputes through an ADR program established, in part, by CAI.

What is Mediation?

A process in which parties submit their dispute to a neutral third party (the mediator) who works with them to reach a non-binding settlement of their dispute.

What is Arbitration?

Arbitration is similar, but the settlement is usually binding, more formal rules are used and a third party makes the decision.

Most common legal problems in community associations :	
1) Assessments and collections	5) Noise
2) Architectural control	6) Music
3) Parking	7) Developer disputes
4) Pets	

Source: CAI Attorney Survey, 1992

Cross-cultural comparison: Assessment and architectural control issues barely exist as problems afflicting community associations in Japan.

Most prevalent problems in community living in Japan

- | | |
|--|---------------------------|
| 1) Residents ignoring garbage collection rules | 5) Children's noise |
| 2) Elevator graffiti | 6) Water leaks |
| 3) Pets | 7) Parking |
| 4) Leaving the bowl delivered by a restaurant outside in the hallway | 8) Piano and stereo noise |
| | 9) Architectural control |

Source: Zenkanren, (Japan National Federation of Condominiums' Homeowners Association, 1991)

Some states have taken further steps in ADR:

Florida The Florida Condominium Act (1/1/92) mandates non-binding arbitration before either party can go to court.

California Legislation proposed in 1991 would establish a Bureau of Community Associations to facilitate ADR.

Illinois Mediation language is included in the proposed Uniform Common Interest Ownership Act.

Maryland Montgomery County, through its Common Interest Ownership Commission, has just installed a formal ADR process.

Thanks in part to the emergence of ADR, disputes in community associations rarely end up in court. In a survey of more than 2,000 community associations, with a total of 350,783 homes, or close to a million people, 377 lawsuits were reported in all of 1991, or one lawsuit for every 2,447 people.

Rules violation letters are very common in community associations. Many members are not completely knowledgeable about the specific bylaws of their community, and minor infractions such as illegal parking and improper uses of common areas

are commonplace. In most instances, however, a formal letter ends the problem.

Out of 2,040 CAI member community associations in 1991,

- | | |
|--------------|--|
| 91% | reported writing at least one letter to a member about rule violations |
| 26% | reported using informal dispute resolution (ADR) at least once |
| 18% | reported having at least one lawsuit |
| .009% | reported having the lawsuit end up in court |

Source: CAI Manager's Survey

Community Association Management

In purely legal terms, the Board of Directors is responsible for managing the affairs of the community association. Like most municipal governments, however, these volunteer Boards, except in the smallest associations, must rely on professional assistance.

During the Phase IV—Expansion of Community Associations, discussed on page 11, the need for professional management assistance became even more critical. At that time, however, very few property managers or property management firms had any experience in dealing with properties run by onsite owners—a lot of onsite owners.

This was one of the reasons that NAIHB and ULI helped to form CAI: to develop and teach a body of knowledge that would create a cadre of professional association managers and management companies with the unique expertise needed for community association management.

Today, many Boards of Directors hire management employees or retain a professional management firm to assist them in carrying out their administrative and service functions. Between 1986 and 1990, there was an increased reliance by communities on management companies and a shift away from on-site staff employed directly by the association.

Type of Management used by CAs in the U.S.	1988	1990
On-site staff	27%	26%
Management company	38%	42%
Volunteer/Self-management	28%	27%
Other (combination)	7%	5%

Source: CAI Research Foundation, 1986; CAI Manager's Survey, 1990

CAs who look for a professionally trained and dedicated manager now have over 500 PCAM members to choose from.

CAI Management Designation Programs

CAI responded to this increased demand for skilled managers by creating a curriculum to educate these professionals and by creating CAI's highest professional management honor—the PCAM, or Professional Community Association Manager designation.

An interim designation program called an Association Management Specialist (AMS), that requires two years of experience, two CAI education courses, and adherence to a Code of Ethics also was created.

Recognizing Association Excellence

Each year, CAI honors four community associations in America with the "Community Association of the Year" award. The awards are presented to community associations in four size categories: Small (1-149 units), Medium (150-499 units), Large (500-999 units) and Very Large (1000+ units). The competition is intense, the judging strict, and CAI presents the prestigious award to four communities that have "attained exceptionally high levels of performance in all facets of operation" at its Spring Conference each year. Communities are judged in a variety of categories, including financial stability, open channels of communication, recycling and environmental programs, governing policies and services/amenities.

For example in 1991, The Council of Co-Owners of The Colonies Condominium in McLean, Virginia, (1991 Winner, Medium category) received high marks for being energy conscious. This community of 12 three-story buildings saved \$20,000 by replacing incandescent lighting in garages, hallways and outside areas with fluorescent and sodium lights. It also installed a system to control air conditioning and heating units (a yearly savings of \$3,000 to \$4,000), and saved another \$2,000-\$3,000 through water conservation. The community also started recycling newspapers.

1991 *Community Association of the Year* Winners:

Lexington-Riverside Condominium Association,
St. Paul, Minnesota.....*small category*

The Colonies Condominium of McLean, Virginia.....*medium category*

Parkside Condominium in Bethesda, Maryland.....*large category*

Leisure World, Laguna Hills, California.....*very large category*

1992 *Community Association of the Year* Winners:

Century Woods Condominium Association,
Los Angeles, California.....*small category*

The Towers of Westchester Park Condominiums,
College Park, Maryland.....*medium category*

Lakeside Village Community Association,
Culver City, California.....*large category*

Lake Ridge Park & Recreation Association,
Lake Ridge, Virginia.....*very large category*

WHAT DOES THE FUTURE HOLD FOR COMMUNITY ASSOCIATIONS?

This housing movement which began tentatively in Gramercy Park and Louisburg Square over 150 years ago, will probably provide shelter for almost one quarter of the nation's population by the end of this century.

Why is Significant Growth Predicted?

- Many development companies are building only community associations, and many regions and localities are accepting only community association development because CAs meet cost effective, long-term planning needs.
- Laws and ADR techniques have been formed to address on-going operational concerns and continually enhance CA governance.
- New professions have been created that are focused on better serving the needs of this \$20 billion dollar a year industry.
- Millions of Americans will continue to choose the benefits of community association living because of services, amenities and value.

Predictions from Industry Analysts

"Multifamily housing will be the first type of property to make a comeback (out of the recession) for the real estate industry," says Richard Diennor, Associate editor of *Real Estate Forum*.

Trends Seen in Development:

- Burdensome state and local statutes may eventually make the condominium too difficult to develop. Florida is already passing exhaustive amendments to its condominium act and is having to rely increasingly on administrative decisions of the Bureau of Condominiums.
- Developers will continue to concentrate on planned communities especially in those states that do not have some version of the Uniform Common Interest Ownership Act.
- Developers will reconsider the complex governance structures that previously characterized Master Planned Communities. They will turn to more simplified regimes without layers of subassociations. This will enhance governance and reduce assessments.
- There will be an increased use of paid professionals serving on the

initial Boards of Directors to facilitate homeowner education and involvement during development and transition.

- Because development financing for residential construction will remain tight during the 1990s, developers of large scale associations will turn to Special Taxing Districts and Community Development Districts to finance infrastructure improvements. This will enable the developer to use bond financing to secure funds.

Trends Seen In Finances and Assessments

- Assessments will continue to increase, but for new reasons: reserve study and reserve requirement laws in California, Hawaii and other states will necessitate more careful and prudent financial planning.

- Mortgage lenders will be taking a closer look at association reserves prior to lending.

- The new AICPA Audit and Accounting Guide for Common Interest Realty Associations will place a greater burden on CPAs to disclose the nature of community association reserve practices.

- Borrowing will become more commonplace as associations seek to avoid the use of special assessments.

Trends Seen in Politics

- Community associations will have a large voice in American politics. With an estimated 32 million Americans living in community associations, politicians will have to pay increasing attention to association issues and concerns.

- State Legislatures are becoming increasingly aware of the growth and presence of community associations. This may result in increased legislation regulating the activities of associations and their property managers, leading to increased friction between state and local governments and community associations.

- Services will be of greater importance as community associations will come under member pressure to assume the tasks once administered by struggling municipal governments.

- "Double taxation" will continue to be a vexatious problem. Community associations continue to provide, through their assessments, municipal services such as trash removal, street maintenance and lighting without rebate or credit from local taxing authorities.

- Alliances of association practitioners and unit owners will continue to form in states with the largest numbers of CAs. The Florida Legislative Alliance and the California Legislative Action Committee will become models for similar groups in other states.

Trends Seen in Management

- Licensing, registration or other self-regulation of community association property managers will become the rule among states, and not the exception.

- The PCAM designation for managers will become a requirement in the search for excellence in association management.

The percentage of people who can afford traditional single family homes is dropping each year leading to the construction of community associations of higher density and smaller square footage.

- Cumulative pressures from certain entities such as the secondary market agencies (FNMA, FHLMC, FHA and VA), national insurance companies and national lenders will result in the view that a PCAM managed association is one way to reduce lending and credit risk.

- The percent of purely self-managed associations will decrease. With disclosure laws being put on the books and foreclosures on the rise, self-managed associations will seek management assistance.

Trends Seen in Disputes

- Alternative dispute resolution (ADR) will soon become the primary acceptable vehicle to resolving internal disputes.

Trends Seen in Association Operations

- Community associations will continue to be more environmentally conscious than other types of residential properties.

- Associations will continue to struggle with social problems: day care, aging in place, handicap accessibility, fair housing—these are all public issues that have pronounced impact on private associations. No easy solutions are in sight.

Trends Seen in Association Governance

- Numerous planned communities were developed in municipal environments where the enabling ordinances prohibited covenants from running longer than 20 years. In other words, large numbers of planned communities will be facing dissolution unless they renew their covenants. This will be an expensive and time-consuming task.

- Boards of Directors will continue to seek the resolution of lawsuits under the Business Judgement Rule and they will continue to search for ways to come under the tort immunity statutes devised for other nonprofits.

Trends Seen in Legislation

- State legislatures will gradually recognize the functionally equivalent nature of community associations: condominiums, cooperatives and planned communities have more similarities than they do differences.

- Legislation will extend beyond condominiums. In fact, Florida recently enacted planned community legislation and several other states are contemplating the Uniform Common Interest Ownership Act (UCIOA) which provides a legislative framework for all three types of associations.

- Some jurisdictions are already concerned that the next wave of conversions will be to planned communities in order to bypass condominium legislation.

- At the national level, legislation, as such, is really driven by secondary market lending requirements. These requirements will be thoroughly re-examined. Currently, CAI is working with these secondary markets and other interested parties to bring legal underwriting criteria up to date.

Notes On 1990 Census Data

Two questions concerning community associations were asked in the 1990 Census "long form," addressed to a sample of households (not to all persons)

- Is this house or apartment part of a condominium?
- What is the average monthly condominium assessment you pay?

CAI will continue to analyze and interpret information gleaned by the census and will update this FactBook to reflect new data both from this source as well as from surveys by CAI and CAI's Research Foundation.

About the Editor

Clifford J. Treese, CPCU, ARM, a nationally recognized practitioner in common interest community insurance and risk management, is vice president of Common Interest Community Underwriting Services, Inc. in Arlington Heights, Illinois. He is president of CAI's Research Foundation (1992-93) and served as president of CAI in 1987.

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Community Associations Institute is a national, nonprofit 12,000+ member association that was founded in 1973. CAI and its 56 chapters throughout the nation provide education and information to America's condominium and homeowners associations, co-operatives, and planned communities, as well as to the professionals who provide products and professional services (legal, accounting, management) to community associations. CAI's Research Foundation explores future oriented topics and provides awards for excellence in CA research and publications.

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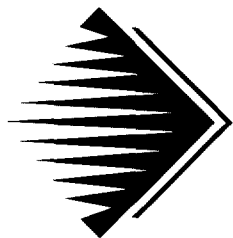
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